

Message Text

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PAGE 01 CARACA 10670 111516Z

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C O N F I D E N T I A L CARACAS 10670

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SUBJ: PETROLEUM REVERSION CREOLE

1. ON OCT 9, ROBERT DOLPH HAVE THE DCM AND ME A RUNDOWN ON HIS NEGOTIATIONS AS THEY NOW STAND. THE FOLLOWING IS PROPRIETARY INFO GIVEN TO THE EMBASSY IN CONFIDENCE AND NOT FOR DISSEMINATION TO THIRD PARTIES.

2. DURING MOST OF THE LAST WEEK THE COMPENSATION BONDS HAVE BEEN THE BIG ISSUE. PETROVEN ORIGINALLY OFFERED TO REDEEM THE BONDS OUT OF ITS OWN CASH FLOW AS A MEANS OF PERSUADING FINANCE MINISTER HURTADO TO GO ALONG WITH THE COMPANY'S SCHEME FOR SELF-FINANCING THRU THE 10PERCENT PER BARREL FEE. HOWEVER, AFTER RECEIVING THE FIGURES, PETROVEN PRESIDENT ALFONZO RAVARD DECIDED THE MONEY WOULD NOT BE THERE. HURTADO FINALLY AGREED TO PICK UP THE OBLIGATION, BUT REFUSED TO MAKE ANY PROVISION FOR REDEMPTIONS IN THE 1976 BUDGET HE HAS ALREADY SUBMITTED TO CONGRESS.

3. THE GOV THEN PROPOSED THE FOLLOWING FORMULA: TAX-FREE, DOLLAR-DENOMINATED, SIX PERCENT BONDS TO BE REDEEMED IN SIXTEEN QUARTERLY INSTALLMENTS BEGINNING MARCH 31, 1977. CREOLE BALKED AND AFTER SOME ANGRY BARGAINING THE NEGOTIATORS OFFERED AN ADDITIONAL REDEMPTION IN JANUARY 1977 OF ONE-FIFTH OF THE BONDS. ACCORDING TO DOLPH, THEY ALSO AGREED UNDER HEAVY CREOLE PRESSURE TO ALLOW USE OF THE BONDSIN PETROLEUM PURCHASES ON THE 2.5 PERCENT FORMULA. IN DOLPH'S CALCULATION, THE PAY-OUT WOULD BE COMPLETED IN TWO AND ONE-HALF TO THREE YEARS, DEPENDING ON LIFTINGS AND HOW

CONFIDENTIAL

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PAGE 02 CARACA 10670 111516Z

THE GUARANTY FUND IS HANDLED. (ON THE OTHER HAND, IPC,

ANOTHER EXXON SUBSIDIARY, TOLD US THAT LAST NIGHT THE GOV NEGOTIATORS WERE INSISTING THAT NO REDEMPTIONS THRU PETROLEUM PURCHASES WOULD BE PERMITTED IN 1976-- AND WITH NO FIRM COMMITMENTS FOR THE YEARS THEREAFTER.)

4. NO PROGRESS HAS BEEN MADE ON THE FEE FOR TECHNICAL SERVICES. THE GOV HAS HELD FAST TO 15 CENTS. CREOLE IS NOW ASKING 20 CENTS. DOLPH SAW NO SIGN OF GIVE AS YET BUT SAID HE WULD KEEP TRYING. ON A QUESTION THAT COME UP DURING MY WASHINGTON CONSULTATIONS, DOLPH CONFIRMED THAT CREOLE'S OFFER INCLUDES A DETAILED LISTING OF TECHNICAL SERVICES TO BE RENDERED, INCLUDING A BREAKDOWN OF THE MANHOURS INVOLVED. SALARIES OF ALL EXPATRIATE TECHNICIANS ARE TO BE FOR PETROVEN'S ACCOUNT. PETROVEN IS TO HAVE FULL CALL ON EXXON'S TECHNICAL RESOURCES-- OR "ACCESS" AS DOLPH CALLED IT-- BUT PAYMENT FOR ANY SERVICE NOT SPECIFIED IN THE CONTRACT IS TO BE NEGOTIATED SEPARATELY.

5. THE OTHER THORNY ISSUE IS THE PROPOSED QUIT-CLAIM CLAUSE IN THE COMPENSATION AGREEMENT. IT WOULD PROVIDE THAT ON SIGNATURE CREOLE(AND ALL THE OTHER COMPANIES) WILL HAVE NO RECOURSE ON ANY MATTER RELATED IN ANY WAY TO THE NATIONALIZATION. AMONG OTHER LARGER ISSUES, THIS RAISES THE QUESTION OF THE GUARANTY FUND. CREOLE WOULD UNDER THESE CONDITIONS HAVE NO MEANS OF DISPUTING DEDUCTIONS THE OGV MIGHT MAKE FROM ITS CONTRIBUTION TO THAT FUND. DOLPH HAS CHALLENGED THE CLAUSE AND HIS LAWYERS ARE DRAFTING ALTERNATE LANGUAGE.

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